



## **Banking, Overdraft and Investments**

Municipalities and municipal entities are required through the normal operations of the MFMA to advise council (or the parent municipality in a case of a municipal entity) and the National Treasury, Provincial Treasury and the Auditor-General of changes in banking, overdraft and investment information.

Part 1 outlines these requirements. For ease of administration we provide 4 templates for periodic submission of the prescribed information.

Part 2 outlines the reporting requirements on overdraft and investments. For ease of administration we provide 2 templates for periodic submission of the prescribed information.

### **Part 1: Banking**

#### **Introduction**

The Accounting Officer (AO) is responsible for the administration of all bank accounts, is accountable to Council (or the Board of Directors in the case of Municipal Entities) and must enforce compliance with the MFMA (sections 10 and 85).

One of the reforms initiated through the MFMA was to end the practice whereby any municipal official can set up a bank account, without the knowledge of the Accounting Officer. Besides the AO, this responsibility vests with the Chief Finance Officer (CFO) and cannot be sub-delegated further.

#### **Municipal and Municipal Entity Bank Accounts**

Every municipality must have a primary bank account to deposit monies (section 8). It is envisaged that the primary bank account would also be the general bank account for all municipal banking transactions. Only where it can be justified for legal, practical or efficiency reasons may a municipality open additional bank accounts. The MFMA places strict controls on the operation of municipal and entities bank accounts (section 7, 8, 10 and 85).

As initially mentioned in the MFMA Circular 55, municipalities are required to ensure that account names on all municipal bank accounts (including the primary bank account) are consistent with the municipal name that was gazetted during its establishment or as amended from time to time (section 7). Municipalities are required to comply with this requirement to ensure that the information on the new electronic banking system allows for the transfer of grants and other funds to municipalities in an accurate and efficient manner. If there is any incorrect information provided, the system will automatically reject the process. Therefore, Form A is provided for this purpose.

Municipal entities are not required to designate a primary bank account, as allocations and other transactions prescribed in terms of section 8 must be channeled through the parent

municipality. However the same principle of a single bank account for all transactions including facilitation of transfers from the parent municipality applies to municipal entities.

Transactions in the primary bank account are also used to provide an audit-trail for effective management of all public funds including grants, and must remain under the direct supervision of the AO and the CFO. It is important to note that an organ of state may only transfer monies prescribed in section 8 to a municipality through its primary bank account, or to a municipal entity through the parent municipality's primary bank account.

Municipalities and municipal entities must observe reporting obligations for bank account(s) with regards to the initial opening of an account and any changes made thereafter. In addition, all municipalities must annually submit, before the start of a financial year (1 July each year), a report listing all bank accounts (section 9(b)). Please note that municipal entities must report this information to the parent municipality, to submit on behalf of their entity. Form C attached provides for both reporting requirements.

Bank account information must also be disclosed in the annual financial statements of each municipality and municipal entity, by listing the name of the bank, account type, purpose, opening and closing balances.

Please note that these reports must be signed by either the AO or CFO, stamped by the financial institution where the account is kept and an original returned to the National Treasury, at the address mentioned below.

<b>Reporting obligations – Municipal/Municipal Entity Bank Accounts</b>				
<b>Action</b>	<b>Information to report</b>	<b>To whom</b>	<b>Other</b>	<b>MFMA section</b>
Opening <b>primary</b> account	Name of bank Type of account Account number	1. Auditor-General 2. National Treasury 3. Provincial Treasury	Must be in writing, original stamp by bank, signed by the AO or CFO <b>(Form A)</b>	8 (5)
Changing <b>primary</b> account	Name of bank Type of account Account number	1. Auditor-General 2. National Treasury 3. Provincial Treasury	Must be in writing, original stamp by bank, signed by the AO or CFO <b>(Form A)</b>	8(5); 74
Opening " <b>other</b> " account	Name of bank Type of account Account number	1. Auditor-General 2. Provincial Treasury 3. National Treasury	Must be <u>within</u> 90 days of opening the account and in writing <b>(Form B)</b>	9(a); 74
Parent municipality to submit the information relating to all its entities		4. Parent municipality		86 (1)
<b>Annually</b> before 01 July each year	Listing of all bank accounts (including the primary account): Name of bank Type of account Account number	1. Auditor-General 2. Provincial Treasury 3. National Treasury	Must be in writing <b>(Form C)</b>	9(b); 74
Note: Parent municipality to submit the information relating to all its entities.		4. Parent Municipality (To receive information from entity/ies)		86 (2)
<b>Annually</b>	Bank accounts to be disclosed in the municipality and/or municipal entity's AFS		Include bank name, account type, purpose, opening and closing balances	125(2)

## Distribution of Primary Bank Account Information

The Division of Revenue Act annually requires the National Treasury to notify all national transferring officers of the details of the primary bank account of each municipality, within 14 days of the Act taking effect. As the payment of allocations/ grants may be scheduled throughout the year, in many instances, the National Treasury updates all relevant transferring officers and key stakeholders of any changes in the primary bank account details of municipalities as and when these changes are reported by the respective municipality.

Whilst the MFMA requires 30 days notice of any changes to a primary account before they take effect (sec 8(5)). It is requested that the old primary bank account be kept open for a period of at least 2 calendar months. This will allow sufficient time for verification and communication to appropriate transferring officer(s) to effect systems amendments to the new primary banking details.

Once changes have been effected to the primary bank account, municipalities must ensure that all monies are transferred from the old primary bank account into the new municipal account to ensure an effective audit trail is maintained. These procedures must be undertaken prior to the closure of the old primary bank account.

## Withdrawals from Municipal Bank Accounts

The MFMA requires strict controls to be implemented when authorising withdrawals from municipal bank accounts. Municipalities must assess the costs associated with maintaining separate bank accounts with the benefits thereof before doing so. The following options are available to municipalities, namely:

**Multiple banks accounts:** Section 11(2) states that when the “municipality has a primary bank account that is separate to its other bank accounts” then the authority to withdraw funds is as follows:

- Primary bank account – AO and CFO only; and
- All other bank accounts – AO or CFO, or any other senior financial official acting on written authority of the AO.

**Single bank account:** Section 8 states that where a municipality has one bank account, that account is the primary bank account. In this case the authority to withdraw funds from the primary bank account (which is used for all banking transactions) is delegated to the AO or CFO, or any other senior financial official acting on written authority of the AO. Any delegation in this regard must be in writing and in accordance with section 79 (AO) and section 81 and 82 (CFO).

## Irregular withdrawals to be reported (section 11(4))

The MFMA requires the AO to report all irregular withdrawals in circumstances where the payment is not in terms of an approved budget. The AO must table a report to council quarterly providing consolidated details of unbudgeted withdrawals, within 30 days after the end of each quarter and a copy submitted to the relevant provincial treasury, National Treasury and the Auditor-General. A report template is provided in Form D attached to this Circular.

### Reporting obligations: Withdrawals from municipal bank accounts not in terms of an approved budget - section 11(4)

#### Withdrawals that must be reported each quarter:

- **Section 11(b)** - Expenditure authorised by the MEC for finance in terms of section 26 (4) when a municipality has failed to approve a budget by 30 June;
- **Section 11(c)** - Unforeseeable and unavoidable expenditure authorised by the mayor in terms of section 29 (1);
- **Section 11(d)** - Payments from a trust, charitable or relief fund without budget appropriation in terms of section 12(4);
- **Section 11(e)** - Payments to a person or organ of state of money received by the municipality on behalf of that person or organ of state, including
  - money collected by the municipality on behalf of that person or organ of state by agreement; or
  - any insurance or other payments received by the municipality for that person or organ of state;
- **Section 11(f)** - Refund money incorrectly paid into a bank account;
- **Section 11(g)** - Refund guarantees, sureties and security deposits;
- **Section 11(h)** - Payments for cash management and investment purposes in accordance with section 13;
- **Section 11(i)** - To defray increased expenditure on a multi-year capital project in terms of section 31; and
- **Section 11(j)** - Payments for such other purposes as may be prescribed from time-to-time.

Information to report:	To whom:	Frequency:	MFMA section
Consolidated details of all withdrawals	<ul style="list-style-type: none"> <li>• Full Council</li> <li>• Provincial Treasury</li> <li>• National Treasury</li> <li>• Auditor-General</li> </ul>	<ul style="list-style-type: none"> <li>• 30 days after the end of each quarter:</li> <li>• Table in full council; and</li> <li>• A copy to the Provincial Treasury, National Treasury and Auditor-General. <b>(Form D)</b></li> </ul>	11(1)(b) to 11(1)(j), 11 (4) 74

## Part 2: Overdraft and Investments

### Introduction

Management of cash can be ascribed as the performance of various activities, including the handling, safeguarding and banking of cash, processing and reconciliation of transactions, adhering to procedures and policies, recording and maintaining of information whether manually or electronically, and the prudent investment of cash, consistent with the Investment regulations and council policies, etc.

Information on two key legislative requirements, relating to overdrafts and investments and read with other reports, is highlighted below and must be reported on. These reports will also assist management and council with their monitoring and oversight activities and provide information on possible financial management challenges.

### Overdraft reporting (Sections 70 and 101)

If the bank account, or if the municipality or municipal entity has more than one bank account, the consolidated balance in those bank accounts, shows a net overdrawn position for a period exceeding 3 months, the Accounting Officer of the municipality must notify the National Treasury (Form F) within 14 days after the 3 months period lapses for municipalities and 21 days for municipal entities and must address the following:

- The amount by which the account or accounts are overdrawn;
- The reasons for the overdrawn account or accounts; and
- The steps taken or to be taken to correct the matter.

In the case of a municipal entity, the AO must report, in writing, to the Board of Directors of the entity at the next meeting and to the AO of the entity's parent municipality, who in turn should notify the National Treasury. A parent municipality should monitor and report on an overdraft position of all its municipal entities (Form F).

When determining the net overdrawn position, the AO must exclude any amounts reserved or pledged for any specific purpose or encumbered in any other way (section 70 & 101).

<b>Reporting obligations – Overdraft</b>				
<b>Action</b>	<b>Information to report</b>	<b>To whom</b>	<b>How</b>	<b>MFMA section</b>
Net <b>overdraft</b> for a period exceeding 3 months for municipalities and 21 days for municipal entities	<ul style="list-style-type: none"> <li>Amount of each bank account overdrawn</li> <li>Reasons for being overdrawn</li> <li>Steps taken to correct the matter</li> </ul>	<ul style="list-style-type: none"> <li>Full Council</li> <li>National Treasury</li> <li>Provincial Treasury</li> <li>Municipal entities to advise their board of directors and parent municipality, who in turn must advise Council, National Treasury and Provincial Treasury</li> </ul>	Promptly report a net <b>overdraft</b> for a period exceeding 3 months for municipalities or 21 days in a case of entities (Form F)	70 74 101

### **Banks, Insurance Companies and other Financial Institutions to report on Municipalities and Municipal Entities**

Banks, insurance companies or any other financial institution which hold, or have held a bank account or investment on behalf of a municipality during the course of the year, have obligations to report to the National Treasury and the Auditor-General in terms of section 13.

A bank, insurance company or financial institution must annually disclose details of all bank accounts and investments. Disclosure of information must include the following, opening and closing balances as well as account information (sections 13(3) and 13(4)). Form E is to be submitted to the National Treasury and Auditor-General on or before 30 July of each year.

<b>Reporting obligations – Banks, Insurance Companies and Financial Institutions</b>				
<b>Action</b>	<b>Information to report</b>	<b>To whom</b>	<b>How</b>	<b>MFMA section</b>
Annually report within 30 days after financial year end- 30 July	Details on all bank accounts and, investments held by any municipality and municipal entity at any time during a financial year	National Treasury and Auditor-General	In writing within 30 days after financial year end (Form E)	13(3) 13(4)

## Reporting Formats

The new report formats have replaced earlier forms. In order to address inconsistent reporting and to assist in reducing the number of reports, kindly ensure that the same document is submitted to the Council, Auditor-General and relevant provincial treasuries.

Form A – Primary bank account of the municipality - when new accounts are opened or amendment made to old accounts;

Form B – All other bank accounts of the municipality and municipal entities - when new accounts are opened;

Form C – Annual listing of bank account details – for municipalities and entities – annually before the commencement of the new financial year;

Form D – Withdrawals not in terms of an approved budget - at the end of each quarterly;

Form E – Annual listing of bank accounts, cash management and investments of municipalities - to be completed and submitted by banks, financial institutions and insurance companies; and

Form F – Bank overdraft reports of municipalities and municipal entities - at the end of each quarter.

The attached reporting forms may be amended from time to time to address monitoring and reporting requirements.

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